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Dear Kevin Warren,

Forgive me, if I got your name wrong, I was watching an unrelated story involving the FCC, and wrote your name down quickly. I am one of 8million subscribers to XM. I am pleading to you Not to Allow the merger Between XM and Sirrius satellite Radios. I want the choice I made Between the two, Not to include paying for Howard Stern. Sirrius satellite is in Financial disarray and Needs XM's technology and success to survive. Howard Stern would Become Relivent again. You would Revive Sterns carreer. Most importantly, the merger would create a monopoly which the current Laws set By you (the FCC) guard against. The FCC Broke apart the phone company to give all of us a choice of carriers. Let's get political for a moment, What ever political party you Belong to, you Now HAVE to Belong to the other political party. does THAT sound good to you? Lastly, the only satellite company pushing for the merge is Sirrius! The company with obsolete tech, mounting debts, Howard Stern's 500 million dollar paycheck, LACK of SuBs, and Mel Carmizen at the controls Mel Destroyed INFinity Broadcasting, VIAcom, almost CBS Radio, and Now Sirrius. XM's Next!!

Please Keep your current laws in Place!! Say No to The merge Please!!

XM Subscriber

[illegible]

David [illegible]
PO Box 503
Seldon NY 11784

The Dow Jones Business and Financial Weekly

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RADIO WARS

DON'T BET O HOWARI

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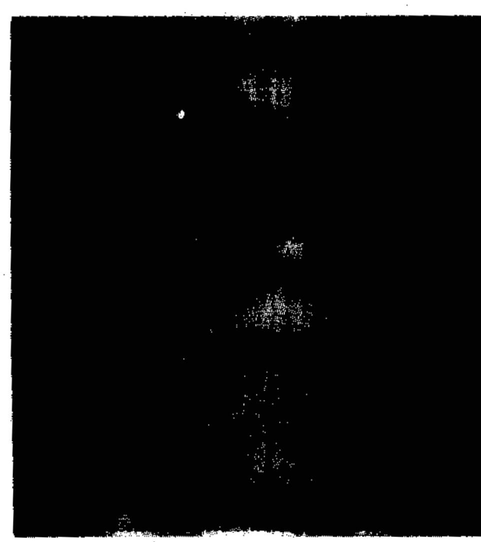
value, greater than rival XM, thanks to the raunchy Mr. Stern. But rival XM, with positive cash flow in the cards late this year or in '07, is the better choice for investors.

Don't Bet On Howard

by Andrew Bary All the hype surrounding Howard Stern's move to **Sirius Satellite Radio** and his outsized $600 million, five-year contract has lifted the profile of an industry that barely existed just three years ago. ● Much has been written about the King of All Media's departure from floundering terrestrial radio to the uninhibited world of satellite radio, and his raunchy Sirius debut on Jan. 9. Yet there hasn't been a lot said about the economics and financial prospects of Sirius and its only direct rival, **XM Satellite Radio.** ● Wall Street actually hasn't been swept up in the Stern hoopla; investors seem to be taking a cautious view of the two as they change from speculative "story stocks" valued largely on subscriber growth to ones that are being judged more on such traditional financial measurement as profits and free cash flow. "The stocks are discounting a lot of good news, and they have large valuations," says JPMorgan satellite-radio analyst Barton Crockett. ● For companies with modest revenues and still-sizable losses, XM (ticker: XMSR) and Sirius (SIRI) have nontrivial stock-market values—$10 billion for Sirius, $9 billion for XM. These figures are based on fully diluted share counts for both companies that include convertible debt and other equity-linked securities. Sirius and XM shares are up more than 10-fold from lows reached in late 2002 and early 2003, when the Street

So far, the shock jock is paying dividends for Sirius. In anticipation of his debut this month, many of his fans signed up for subscriptions.



Will satellite-radio subscribers top out at 20 million, 30 million or 50 million? There now are more than 200 million listeners to conventional AM and FM radio. Perhaps the more important questions are: Will incremental satellite subscribers prove more costly to obtain, and will currently high customer loyalty begin to decline as the services become mass-market products, resulting in increased—and expensive—customer churn?

XM was hurt by recent news of weak fourth-quarter growth in new radio subscribers from its automotive partners, primarily **General Motors** (GM). This raised some questions about the growth rate for satellite radio in the critical vehicle market.

Sirius shares, at around $6.30, are below a peak of $9 hit in late 2004 and a recent high of almost $8 at the height of the pre-Stern enthusiasm last month. XM, at around $28, is near its 52-week low of $26, and well below its record of $40 reached in December 2004. Sirius bottomed at 40 cents in early 2003, and XM hit a low of under $2 in 2002.

Investors are wondering whether it's worth taking the risk involved with satellite radio operators, which aren't expected to produce significant profits until 2009. There are plenty of investment alternatives in the depressed media, satellite-TV and cable-TV sectors. Companies like Time Warner, Gannett and CBS have substantial current profits and free-cash-flow yields of 5% to 8%, based on estimated 2006 earnings.

"I think this is a classic case of investing in companies during the romance phase and avoiding them in the reality phase," says Rob Lutts, chief investment officer at Cabot Money Management. "Let's see the first dollar of profits before we start talking about billions." Lutts isn't fazed by richly valued companies, but he'd much rather own **Google** (GOOG), which is producing ample profits now, than the satellite radio duo.

Looking out a few years, new and competing technologies, like wireless-music services offered by cellular-phone companies, potentially could challenge satellite radio.

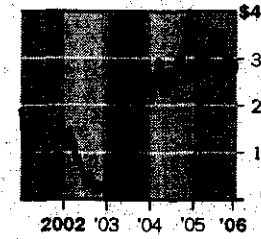
The current financials of XM and Sirius aren't pretty. Sirius last year likely had revenue of less than $250 million, an operating loss of more than $800 million—and a loss of 65 cents a share. XM probably produced revenue of $550 million, an operating deficit of $500 million and a loss of almost $3 a share.

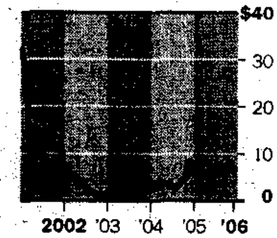
Contrast this with **Clear Channel Communications** (CCU), the leading terrestrial-radio operator, which probably had $9 billion of revenue and almost $1 billion in free cash flow last year. Clear Channel's equity value is $17 billion. The good news is that both XM and Sirius have ample cash that they say is sufficient to take them to cash-flow breakeven.

Barron's has written periodically on satellite radio, including a bullish cover story three years ago ("A Sound Idea," Feb. 17, 2003), when XM and Sirius were a fraction of their current prices. We've consistently favored XM over Sirius, and we still do, despite Sirius' strides in the past 18 months. In addition to snagging Stern, Sirius hired Mel Karmazin, a veteran radio executive and former president of Viacom, as its CEO in late 2004.

"Satellite radio is one of the few secular-growth stories in media and industry in the early innings of growth," says Eileen Furukawa, the satellite analyst at Citigroup. She likes both companies, but says XM stock is the better value.

Here's why XM looks more attractive than Sirius: XM and Sirius have market values that aren't too far apart, but XM has almost double the number of subscribers. XM is likely to maintain its lead in the coming years because it has a stronger stable of automotive partners than Sirius, including all of the major Japanese car makers, starting in 2007. XM's partners control about 60% of





Source: Thomson Financial/Baseline

	XM Satellite	Sirius Satellite
PROGRAMMING		
	160 Channels	[illegible] Channels
SPORTS		
	Major League Baseball	NFL Football
	Nascar *(through '06)*	NBA Basketball
	National Hockey League	Nascar (starting '07)
ENTERTAINMENT		
	Bob Dylan	Howard Stern
	Opie & Anthony	Martha Stewart
	Snoop Dogg	Maxim Radio
	Wynton Marsalis	Eminem
AUTOMOTIVE PARTNERS	General Motors	Daimler/Chrysler
~~[illegible]~~	Honda	Ford Motor
Lexus	Hyundai	BMW
Audi	Nissan *(2007)*	Mercedes
	Toyota	Mitsubishi
KEY FINANCIAL DATA		
Recent Price	$28.40	$6.35
Shares Outstanding	320.0 mil	1.66 bil
Market Value	$9.1 bil	$10.5 bil
Net Cash (Debt)	($100.0) mil	$300.0 mil
Subscribers	6.0 mil	3.3 mil

Sources: Company reports; Morgan Stanley

sons, XM's chairman. "We have more subscribers, and we add them at a fraction of the cost." XM's cost per acquiring a subscriber is roughly $100, versus about $200 for Sirius, although Sirius aims to bring down those costs. "Investors at this point don't seem to be valuing that we're twice as large and twice as efficient" as Sirius, Parsons says.

The similar market values of Sirius and XM could reflect the momentum that Sirius received from the Howard Stern launch and the vastly different shareholder bases of the two companies. XM is the institutional favorite. Sirius counts a huge number of retail investors and limited institutional ownership. Sirius typically is one of the most active Nasdaq stocks, sometimes trading more than 100 million shares a day. Jim Cramer, the host of CNBC's *Mad Money*, has been a Sirius fan.

XM and Sirius have demonstrated that large numbers of Americans will pay for something that they used to get free. Both charge $12.95 a month or $142 a year for 125-plus channels of commercial-free music, news, talk and personalities like Stern. One misconception is that Sirius and XM share programming.

Looking ahead to 2010, a significant chunk of the estimated 17 million vehicles expected to be sold in the U.S. could have satellite radio as standard equipment. Both XM and Sirius may add three million subscribers annually in the next few years.

Commercial radio helped create the opportunity for XM and Sirius, as the industry alienated listeners by adopting homogenized formats in the 1990s and barraging them with as many as 20 minutes an hour of commer-

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rs (mil)	3.3	6.1	9.3	11.9	14.5	16.8
(mil)	$236	$597	$1,023	$1,490	$1,922	$2,363
Flow (mil)	–$372	–$225	–$17	$126	$359	$622

Source: J.P. Morgan

Parsons says the company be- at it can generate $100 million free cash flow for every mil- bscribers above financial n. This implies that XM could re than $1 billion of free cash 010, when it expects to have 20 ubscribers. With a current mar- of $9 billion, XM trades at a free-cash-flow yield based on 2010 results. If XM trades in 5% cash-flow yield, it suggests tock could double by then.

cash flow is expected to trail ecause it's growing from a subscriber base. JPMorgan's sees Sirius generating $622 free cash in 2010, while Citi- Furukawa projects $643 million. rojections suggest less upside for Sirius shares.

automotive-contracts edge is t: Car makers are ramping up n of vehicles that are factory- with satellite radios, and consum- buying cars that can be immedi- ven off the lot with them, rather ng dealers install the radios. XM ancillary data services, such as ic, which integrates live traffic re- the navigation systems of the and some Cadillacs.

makers generally have lined ther the XM or Sirius camp. General Motors, which has most aggressive installer of radios. There now are about on drivers of GM cars with M radios.

a (HMC) also is aligned with uxury division, Acura, now has s as standard equipment in its behemoth **Toyota** (TM) plans factory-installed cars with XM er this year. Toyota's new Lexus the LS460, is likely to come stan- n an XM radio and NavTraffic. NSANY) plans to roll out fac- lled XM *radios in 2007. Fast-* **Hyundai** plans to make XM a *feature in its cars by 2007.* The *rs in the XM camp could ap-* 65% U.S. market share in the ears.

d news for XM is that, at least it will be highly dependent on Motors, whose woes likely won't ell cars. Subscriber additions were weak in the fourth quarter. key partners are **Daimler** (DCX), **Ford** (F) and **BMW**. s further along than Ford, which an widespread availability of fac- lled Sirius radios until later this vast bulk of Sirius radios are purchased by consumers at retailers like Best Buy and Circuit City, rather than as standard equipment in cars.

XM had a nine-month head start launching its service because its in-house technology was available earlier than Sirius' outsourced technology, and XM has maintained a technological lead since then.

The XM edge could be evident in the coming launch of portable devices from Pioneer and Samsung that will combine a live XM radio and MP3 recording capabilities that will allow users to store 50 hours of programming, including music recorded off XM channels (see Our Gadget of the Week, page 35.) One limitation is that music recorded from XM's 160 channels can't be moved from the device and will no longer be accessible if the XM subscription lapses.

The music industry isn't crazy about such devices, including one from Sirius called the S50 that allows subscribers to record off the air. XM and Sirius now pays less than $1 a month per subscriber in royalties to the music industry, far less than the estimated $4 to $6 a month that RealNetworks' Rhapsody and other subscription services pay.

Later this year, key agreements expire between XM and Sirius and the music companies. The music industry is apt to seek higher payments, arguing in part that XM and Sirius' recording devices are turning XM and Sirius into interactive services. "We do not believe the [music] labels will succeed in converting the framework of the satellite radio service from radio to interactive service," wrote Morgan Stanley's Benjamin Swinburne in a client note. He warned that it would be "catastrophic" for satellite radio if the music industry could succeed in imposing costly Rhapsody-type royalties on XM and Sirius.

XM and Sirius also have developed a host of retail products, including radios that can be self-installed in cars, boom boxes for home use and MP3-type players priced from $50 to $500 to broaden the market.

It's important to recognize that there are few companies in today's stock market like XM and Sirius, with robust market values and only modest revenues. Yet both are legitimate growth stories with clear paths to profitability. Assuming that XM and Sirius stay rational and Americans don't tire of satellite radio, the two companies are apt to make good money within a few years. But given XM's edge in subscribers, automotive partners, technology and customer-acquisition costs, its stock looks like the better buy. ■